



# Social Response Capitalism Today and Tomorrow

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# *The world of this new century, so swift and severe, needs superior leadership.*

Like in the two prior centuries, competing on price and quality remain critical and necessary. But today, these two fountain heads of capitalism are providing insufficient criteria for success in a carbon and capital constrained world. What else is needed?

I believe we need something no less than a new kind of leader. Most social commentators today, from Sarah Palin to Barack Obama, note that we need leaders we can trust, leaders who can compete on price, quality and social needs—from avian and swine flu, to new forms of energy, and better cars, computers and homes. We need to combine the best that MBAs get with what Masters of Public Administration know and experience. How is this possible? And where will they work?

This essay explores what I mean by **Social Response Capitalism**—sometime quite necessary but still missed by Fox News and the Heritage Foundation as well as by most of the liberal leaning members of our thought establishment. Is this a new form of capitalism? Is it a deviant form of socialism? Or, is it simply a new way to compete in a smaller, more integrated and globalized world?

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## Defining Social Response Capitalism

Our definition of this burgeoning form of advanced capitalism is not without complexity and consequences. Before we can enjoy the definition, I know that many corporate leaders need to be persuaded to suspend their normal prejudices about planning and certainty. For it is all right for us to operate out of panic and resolve, okay for our firms to compete on social needs.

Here are some of the tenets of Social Response Capitalism, which we provide to clients and affiliates alike:

1. Companies restructure their operations to actively accommodate consumer demand by creating new products that bridge the gap between traditional expectations of performance and price and social impact on the larger world.
2. This gap has been ignored in the past because it wasn't considered good business to worry about such "externalities."
3. However, today, these externalities are impinging upon the long-term viability of entire product lines that have served as the basis for our industrial economy.
4. While past efforts at becoming a good corporate citizen often focused on streamlining production techniques and efficiency, the latest twist is making better products—products that respond to legitimate, emerging social pressures and needs.
5. Examples of these new social pressures include a drive to eliminate toxic chemicals in products of everyday use, a new corporate emphasis on the reusability and endurance of products, and some early examples of pure product innovation in advance response to pressures on clean air and climate change.

## Altruism, Capitalism, and Social Response

I now believe this force for good in select capitalists is like altruism, but better. Altruism requires evidence of selfless good; Social Response simply requires not shooting those on your side. It means you create a web of support within your firm, industry, and the regulatory community, and basically recreate the rules on what determines a “good” product—addressing public expectations in a sensible and reliable business fashion—thus insuring that you are able to compete on price, technical quality, and social needs.

This is especially true for firms providing security, sensors, energy, cars, and computers. In the 21st century, three key elements will challenge businesses. I call it the “S Frontier,” and it is comprised of: the **swiftness** of information, the **severity** of global problems, and the need for business leaders to become “**social** response capitalists.” This S Frontier touches all firms, from large responsible companies such as Electrolux and Whirlpool to small firms looking for their niche and barriers against competition. Once you know to look for it, the trained eye sees it almost everywhere, and realizes that the day of the cheap, shoddy product is coming to an end. Nike sees this, as do Starbucks and IBM. It is about building to a new, higher peak from which to compete on price, technical quality, and Social Response. These corporations are seeing that more and more people are refusing to buy goods that don’t meet a certain standard, even if they are cheaper.

Management scholars like W. Edwards Deming and Joseph Juran spent several decades after World War II making sure that quality processes entered the plans of corporate strategy, supplementing the classical concerns of price, technical reliability, and distribution matters. This revolution in quality, efficient manufacturing established the dual corporate emphasis on price and the technical quality of products and organizations. Firms like GE, Honeywell, Lockheed Martin, and ConocoPhillips are now famous for employing this dual emphasis on price and technical quality to bring better products into the world.

## A New Trinity of Social and Corporate Beliefs

We now live in a time of a new corporate trinity, a set of beliefs that puts social concerns on par with price and performance. This new approach to business strategy is designed to promote “sustained value creation.” It produces families of products that can stand up to social scrutiny over time. To the ever-present pursuit of lowering price while improving technical quality, Social Response Product Development introduces a new decision model. As a result, companies are taking on unfamiliar, new roles that can build the long-term value of their business and fundamentally change the quality of our everyday lives. If price and technical quality are the “father” and the “son” of this corporate creed, then this third variable is the “holy ghost” of many companies.

To date, this third part of the trinity has been largely invisible. But the truth is that the social mission of a firm is becoming more firmly embedded in everything they do as consumers and competitors keep raising the bar on socially responsible products. And that is why writers such as Scott Bedbury, the creator of the earthy yet sassy feel of corporate brands like Nike and Starbucks, have so much fun talking about the “soul” of an organization. When a firm asks questions about how the future needs of society will reshape their organization, then you begin to feel their soul.

## Give Them What They Need, Not Just What They Want

Social Response Capitalism is rapidly growing in importance in all corners of the global marketplace. It is grabbing center stage in select corporate boardrooms throughout the world. My experience with firms like HP and DuPont dictates that this is not a passing fad. The CEOs may leave, but this kind of culture will remain. It is constantly updated and modified, but permanent. The need to compete on price, technical quality, and Social Response have historical underpinning and economic success tied to them now.

## What's Surprising and What's New About Social Leadership

The development of, and call for, social responsibility is quite new. This phenomenon is so new, in fact, that you really can't blame Deming and Juran for not noticing this emerging trend in their time. In fact, most of the well-published management gurus of today (from Warren Bennis to Jim Collins) are still so preoccupied with the duality of price and quality that their very good work suffers from the lack of this promising third variable to success. However, a few pioneering corporations are trailblazing ahead, changing faster than the ideas being espoused in traditional circles of scholarship and theory-building on good business management practices. Starbucks, Nike, Shell, and BP have spent millions on advertising to promote their "social brands."

In a similar manner to what Deming and Juran did for corporate strategy after World War II, many new social forces began to alter the standard decision models of corporate strategy after the tragic accidents of Bhopal and the Valdez oil spill. After working for Mario Cuomo and expanding my definition of the legitimate roles of government, I chronicled this trend in my 1995 book *Corporate Environmental Strategy: The Avalanche of Change since Bhopal*.

I was thankful when Andy Hoffman, within two years, wrote a book called *Competitive Environmental Strategy* that echoed many of the same themes in a larger organizational dynamic context. Last but not least, Elsevier Science soon began publishing a quarterly journal entitled *The Journal of Corporate Environmental Strategy*. But, what I failed to notice in all of these developments at the time was the speed and magnitude of these changes.

Social Response Capitalism is much larger than an end-of-the-century curiosity, and I've spent much of the last two decades proving to clients why it goes well beyond environmental and energy concerns. It resides in consumer product selection, corporate strategy, investment appeal, and public brand. We sum it up as "balancing" the competing social needs of corporate strategy, energy,

and environmental leadership with the classical management of financial risk and opportunity. But it involves this entire search for superior products to secure a better world.

A far broader range of topics is being discussed by the world's major companies, which is both the result of Social Response Capitalism (the demand by consumers for better, safer products) and just the beginning of it (as better products are developed and become successful, more and more companies will begin to follow suit). The issues being addressed range from the labor conditions in the factories located throughout Asia that produce many of the clothes and electronics products sold in the U.S.—a real concern of companies like Nike and The Gap—to public health concerns such as AIDS. After the recent spate of hurricanes, fundamental lifesaving services—such as a clean and adequate water supply—are considered in this mix, along with modernizing the power grid. As governments across the globe retreat on these issues, companies are expected to fill the void.

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## Shaping Social Response Capitalism

This history, in a sense, has only begun. The world now collectively faces some of the most serious threats to our normative sense of life, liberty, and freedom than ever before. The interconnections between global economic development, terrorism, resource tension over oil and water, population growth, uncertainty over climate change, and political unrest are all converging. These catalysts are shaping the promising new developments in our global equity culture. The best social capitalists see the opportunity beneath these serious social challenges.

Consider some of the following challenges to our current lifestyles in the coming decade. In sizing up a potential client to gauge how well we may be able to help him or her, we look at the following inescapable global facts that must be considered in any corporate strategy of consequence:

1. The world's population currently exceeds six billion people, placing large constraints on the capacity of the earth to provide for everyone.
2. The majority of the world's population remains hungry, illiterate, and poor.
3. Butting up against constrained markets, many companies are extending their social responsibility reach into the poorest regions of the world in hopes of helping them and one day creating a market for their products where one did not previously exist.
4. The world's oil reserves are dwindling and some experts expect them to be depleted within fifty to one hundred years.
5. Energy is at the crux of sustainability. More and more new technologies, policies, and investments are shaping the energy industry—fuel cells, biofuels, wind power generation, thin-film photovoltaic power supplies, and bridge technologies like hybrid-electric engines. These technologies represent our growing awareness of finite resources.



6. The availability of clean and fresh water is limited. Some experts believe the global conflicts of the future will be “resource wars” related to gaining access to fresh water, fertile soil, and other natural resources.
7. Economic growth in China is expected to continue exponentially for the next ten to twenty years, potentially making them the second largest GDP worldwide by 2020 or 2030. China is attempting to develop its economy with sustainability in mind.

In 2003 and 2004, China adopted guidelines for automobile emissions and renewable energy technologies that, in some cases, go beyond the requirements in other developed countries.

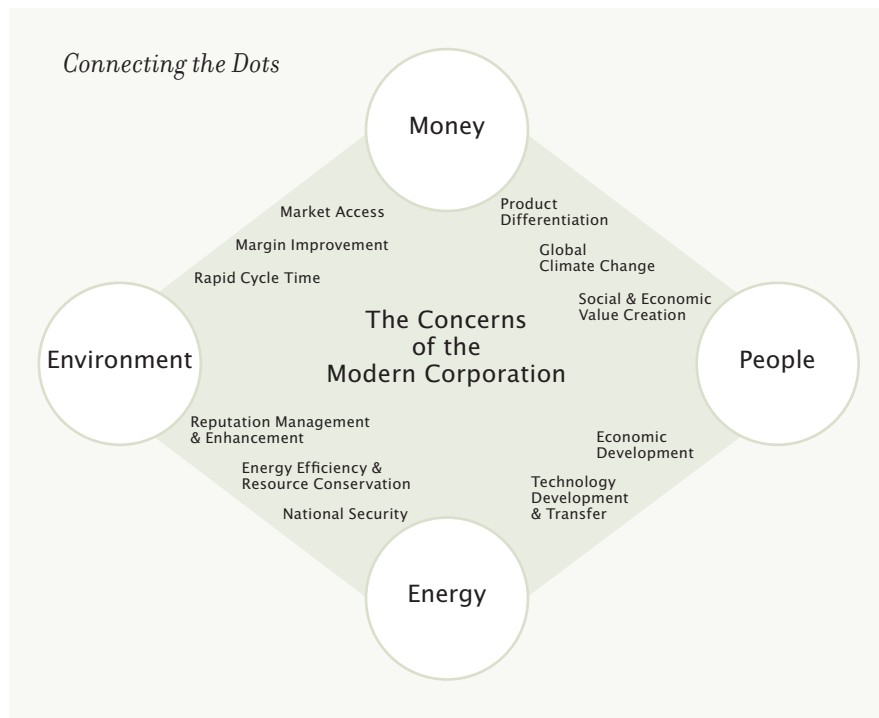
Most good MBA and junior executives’ minds start to wander after you share the first three of these global realities, and this is what separates the leader from the manager—the ability to cope and respond to new pressure.

## The Boundary Conditions That Gave Birth to Social Response Capitalists

- Here, again, are the boundary conditions whereby this set of forces reshaping capitalism took hold in society, policy and the general public:
- Fifty-one of the one hundred biggest economies in the world are now corporations, only forty-nine are governments.
- The one hundred largest multinational corporations (MNCs) now control about 20 percent of global foreign assets.
- As much as 40 percent of world trade now occurs within MNCs.
- The annual sales revenues of each of the six largest multinational corporations are now exceeded by the GDPs of only twenty-one countries in the world.

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These higher facts and rapid global corporate growth have now collided to form our new global equity culture. This collision offers both opportunity and hope, as seen in the next figure:



The figure shows that when rapid money transfers and corporate global demand on the price and availability of oil (for example) collide, it has repercussions that revolutionize how people and profits interact. You see this most vividly in the ways energy and environmental decisions impact the economy—such as national security. The left bottom corner of this chart shows the growing interactions between energy choices and environmental impacts, while the right bottom shows how these impact people.

The chart displays how things of global consequence are actually linked regionally and in our lives. It is a very difficult image to convey to those unwilling to hear more than what directly impacts their bottom line—the four-sided nature of the chart shows that some of the impacts and collisions are indirect, second-order relationships, but can have just as much of an impact on a business' success. Social Response Capitalists hear them loud and clear.

Herein lies the hope: to profit in a sustained way you must leverage your money, corporate resources, energy, and people in a fashion that answers mounting social needs. I founded the AHC Group twenty-five years ago on this motto: "Answering Public Expectations." We use this motto to remind ourselves how small we are in the larger turbulence of global social needs. It is not about short-term markets only, but increasingly about long-term societal needs and expectations. We are still responding to these elements above—in fact, they reshape us monthly.

## Six Recurrent Benefits Enjoyed by Social Response Capitalists

For Social Response Capitalists, product stewardship and the management of their product families directly embody new forces within capitalism. One good idea is often quickly and creatively applied to as many products as is suitable. In less than three years, Toyota transferred its basic innovation of consequence—fuel efficiency—to ten models of their products, from the Highlander SUV, the Camry and the Lexus to some emerging high-efficiency trucks. HP does the same as it patterns innovations across product families—the liquid crystal display is one well-known case in point. The post-Maytag Whirlpool will have to begin this process to compete with Electrolux properly. And, according to the well-financed and often-read pages of Fortune and Forbes, GE and Wal-Mart are after this kind of innovation as well. Wired and Fast Company fill frequent pages with midsize and smaller companies hoping to do the same, as do Inc. and CFO magazine.

From 1999 to 2001, many of the key meetings we were invited to attend at Toyota had to do with this rigorous alignment of product families. As soon as the Prius reached 3 percent of the firm's global market share in 2005, Toyota let the New York Times print a piece about the ten-model implementation strategy we had conceived in 1999. At last, my confidentiality constraints could be lifted and the logic of these Social Response Product Development benefits could be generalized to benefit some of the other companies I worked with. For a decade now, I have been advising clients that Social Response Product Development offers six recurrent benefits that compound like interest in a bank.

As you read these, measure them in reference to a decade, not a quarterly report:

1. **Margin improvement**—seeking cost savings at every stage of the product life cycle through more efficient use of labor, energy, and material resources. Toyota is world famous for such lean manufacture.

2. **Rapid cycle time**—reducing the time it takes to get a product to market by considering environmental issues as part of the concurrent engineering process during the early stages of design. Intel, HP, GE, and Honeywell benchmark these advances frequently.
3. **Global market access**—developing global products that are environmentally preferable and meet international eco-labeling standards in Europe, Japan, and other important trade regions. In 2006, after a significant new Goldman Sachs report itemized market access constraints in oil and gas, this strategic factor grew in importance at all global manufacturers. Toyota was there by 1999. Think of the benefit.
4. **Product differentiation**--introducing distinctive environmental benefits such as energy efficiency or ease of disassembly to your products that may sway a purchase decision. Toyota out-competes all the auto giants in this category year after year.
5. **Social bundling of value in products**—positioning a company’s product line in a fashion whereby it becomes clear to consumers and investors that this firm thinks of their products as social expressions, as a compromise and a hybrid between addressing a social need and making some money.
6. **The sixth and last benefit of Social Response Product Development involves reducing the risk premium of the firm.** By selecting products that have Social Response built into them, the overall risk profile of the firm is reduced.

In short, Social Response Product Development is a blend of classical product development tools with this new set of “social” elements. Up until this new century, elements of yield improvement and market positioning across industries were constrained within the realms of engineering performance specs and production criteria. But lately, this has been reaching the upper levels of the corporate mansion, from the head of marketing and sales (as in the Toyota case) to the heads of law, IT, energy procurement, and the like.

## Mounting Social Pressures Begat More Capitalists Who Think This Way

Writing *World Inc*—and watching it surface into eight foreign editions—taught me that I had hit a raw nerve in industrial society. Social Response Capitalism is about to become much more prominent than it currently is.

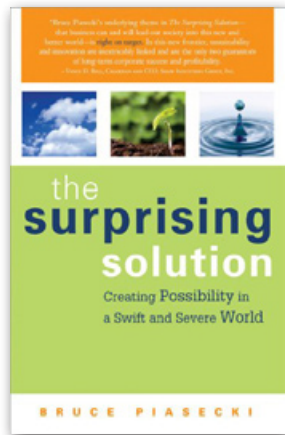
That's why it matters now to investors, managers, executives, supply chain strategists, the banks, and our entire global equity culture. To some extent, it doesn't really matter as much as I had thought it did if the consumer even sees this holy ghost of "Social Response."

To profit in a sustained way you must leverage your money, corporate resources, energy, and people in a fashion that answers mounting social needs.

This is where the work of John Elkington, Joel Makower, and the other advocates of the green consumer fall short. When Social Response Capitalism works best, it is embedded in the price of the product—and becomes the invisible hand closing the purchase. I believe Patricia Aburdene's books started noting this new reality about ten years ago, as did the works of Stu Hart and others.

In an important way, all the literature from 1972 to present on the need for “green consumers” misses this grounding point. Social Response Capitalists have created these larger expectations that make it more difficult for their competitors to jump through the same hoops. This enlightened self-interest is what fuels the global equity culture that I have come to celebrate in my latest book, *The Surprising Solution: Creating Possibility in a Swift and Severe World*. I now see this each day in newspapers, wherever I am working. I see it from the search for fuel cells, bio-fuels, new ways to package, and new ways to power our economy, transportation, and computing infrastructure. It is the way of the world that business first seeks to sustain and further itself, but this revolution has the side benefit of being good for us all.

**It is in this act of making better products for a better world that Social Response Capitalists develop leaders who we can trust. 🌱**



## BUY THE BOOK

Get more details or buy a copy of Bruce Piasecki's [\*The Surprising Solution\*](#).

## ABOUT THE AUTHOR

Bruce Piasecki is the President and Founder of [AHC Group Inc.](#) and the author of seven seminal books on business strategy, valuation, and corporate change, including the Nature Society's book of the year, *In Search of Environmental Excellence: Moving Beyond Blame*. Since 1981, his firm has worked for many small, mid, and large size firms on competing on sustainability. Dr. Piasecki's new book, *The Surprising Solution: Creating Possibility in a Swift and Severe World* has just been released.

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